# Fiscal Note 2009 Biennium
# Special Session

| Bill # | HB0007 | Title: | Distribute Budget Surplus through Property Tax Reductions |
|---|---|---|---|
| Primary Sponsor: | Koopman, Roger | Status: | As Introduced |

- ☐ Significant Local Gov Impact
- ☐ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☑ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

## FISCAL SUMMARY

| | FY 2008 Difference | FY 2009 Difference | FY 2010 Difference | FY 2011 Difference |
|---|---|---|---|---|
| **Expenditures:** | | | | |
| General Fund | $0 | $0 | $0 | $0 |
| **Revenue:** | | | | |
| General Fund | $0 | ($121,270,000) | $0 | $0 |
| **Net Impact-General Fund Balance** | $0 | ($121,270,000) | $0 | $0 |

**Description of fiscal Impact:**

This bill places a cap of 6% of the revenue for a fiscal year on the state general fund ending balance at the end of each fiscal year. The surplus will be used to reduce or eliminate the statewide elementary and high school education property tax mill levies (95 mills). Any remaining surplus will be used for a rebate to individual income taxpayers.

## FISCAL ANALYSIS

**Assumptions:**

1. Section one of this bill declares the amount of the audited ending general fund balance in excess or 6% of the revenue for a fiscal year to be a "budget surplus". The budget surplus is to be returned to taxpayers by reducing the statewide 95 mill levy for elementary and high school education. The reduction is to be made in the tax year in which the budget surplus occurs. If the remaining budget surplus after the elimination of the statewide mills is over $10 million, it is to be distributed as a refund to individual income taxpayers "pro-rata", based on individual income tax returns filed 2 years before the surplus distribution occurs. Distribution occurs in November of the year in which the surplus occurs. Each taxpayer would have the option to donate his or her refund to the state, and to specify its use.

2. The Governor's budget projects general fund revenue to be $1,826.09 million in FY 2008.
3. Under HB 7, the ending balance will be 6% of the revenue from an audited fiscal year. In FY 2008 this amount will be $109.57 million ($1,826.09 million x 0.06).
4. The Governor's budget projects an ending general fund balance of $229.88 million for FY 2008.
5. HJR 2 forecasts revenue generated by the 95 mill levy to be $187.66 million in FY 2008.
6. For tax year 2008, the budget surplus as defined in HB 7 will be $120.31 million ($229.88 million – $109.57 million).
7. The $120.31 million budget surplus as defined in HB 7 will be used to reduce the 95 statewide mill levies.
8. In FY 2008, the value of one mill is $1.98 million ($187.66 / 95 mills).
9. The reduction in statewide mills will be 61 mills approximately ($120.31 million divided by $1.98), for tax year 2008 (FY 2009). As property value increases each year, the growth of the property tax on the 34 remaining mills (95 – 61) between FY 2008 and FY 2009 will be more than the $120.31 million. The growth projected for the 95 mill levy revenue is 4.92%. Applying this growth to the $120.31 million reduction used to calculate the mill levy would make the FY 2009 revenue loss $126.23 ($120.31 x 1.0492).
10. The 55 mill share of federal forest receipts payments in FY 2009 is forecast to be 20.35%. Under this bill, this percentage will be reduced to 12.95%. The total federal forest reserve payment in FY 2009 is forecast to be $12,938,991. The loss under this bill associated with the federal forest reserve payments will be $957,485 ($12,938,991 x 0.2035) – ($12,938,991 x 0.1295).
11. Total loss to the general fund in FY 2009 will be $121.27 million ($120.31 million + $0.96 million).
12. Under the proposed law, it is assumed that the end fund balance in FY 2009 would be under 6% of the audited revenue amount and that no budget surplus would exist in later years due to the effects of this bill.
13. The cost of state support for K-12 education is driven by the funding rates set in statute. A reduction in state revenue collections does not reduce the state's obligation to schools. To the extent that state general fund revenue collections are reduced from the state and county equalization levies, the cost will need to be supported from other state general fund revenue sources.

| | FY 2008 Difference | FY 2009 Difference | FY 2010 Difference | FY 2011 Difference |
|---|---|---|---|---|
| **Fiscal Impact:** | | | | |
| **Revenues:** | | | | |
| General Fund (01) | $0 | ($121,270,000) | $0 | $0 |
| **TOTAL Revenues** | $0 | ($121,270,000) | $0 | $0 |
| **Net Impact to Fund Balance (Revenue minus Funding of Expenditures):** | | | | |
| General Fund (01) | $0 | ($121,270,000) | $0 | $0 |

**Long-Range Impacts:**

1. The general fund balance will be permanently reduced by this bill.

**Technical Notes:**

1. NEW SECTION 5 of this bill would make the bill applicable to tax years beginning after December 31, 2007. In lines 3 through 8 of NEW SECTION 1(2)(a)(1) on page 2 of the bill is the following: "…the applicable year, which is the tax year ending in the 12-month period on or before December 31 in the year 2 years before the year the surplus distribution occurs." When this section is read in conjunction with the applicability clause, some confusion may result.

2. The Department of Revenue is directed to transmit refund payments related to tax year 2005 starting in November 2008. The timing of the other administrative actions required by the Department are not specifically addressed. There are two ways to address this. The bill could be amended to provide the necessary detail, or the Department could be given specific authority for rule-making to provide the necessary detail.
3. For individual income taxpayers who itemize deductions, property taxes paid are an allowable itemized deduction for federal income tax purposes. This bill will result in higher taxable income and increased federal income taxes for these individuals starting in tax year 2008, as well as in increased state income taxes.

| *Sponsor's Initials* | *Date* | *Budget Director's Initials* | *Date* |
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